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**NATIONAL ENERGY BOARD
REPORT PURSUANT TO
s. 14(1) OF THE NEB ACT**

Conference on TransCanada Methodology
and Facilities Hearings

August 1984

NATIONAL ENERGY BOARD

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and Facilities Hearings

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Cat. No. NE 23-20 /1984-E

ISBN 0-662-13427-3

**This report is published separately
in both official languages.**

Copies are available on request from:

Secretariat
National Energy Board
473 Albert Street
Ottawa, Canada
K1A 0E5
(613) 992-3972

**Ce rapport est publié séparément
dans les deux langues officielles.**

Exemplaires disponibles auprès du:

Secrétariat
Office national de l'énergie
473, rue Albert
Ottawa (Canada)
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NATIONAL ENERGY BOARD

In the Matter of a Conference on
TransCanada Methodology and Facilities Hearings

MH-1-84

The Board, having received and considered this report dated August 1984 of the Presiding Member, Mr. C.G. Edge, made pursuant to subsection 14(1) of the National Energy Board Act, has adopted the report.

Z. Johnstone

Secretary

Dated at Ottawa, Canada
13 August 1984



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RECITAL AND APPEARANCES

IN THE MATTER OF the National Energy Board Act
and the Regulations made thereunder;

AND IN THE MATTER OF the method of regulation
under Part IV of the National Energy Board Act
of the tolls of TransCanada PipeLines Limited
(hereinafter called "TransCanada"). Board
File No. 1562-T1-19; Board Order No. RH-2-84;

AND IN THE MATTER OF an application made by
TransCanada PipeLines Limited for a
Certificate of Public Convenience and
Necessity under Part III of the said Act,
filed with the Board under File No.
1555-T1-128.

HEARD at Ottawa, Ontario on 31 July and 2 August 1984.

BEFORE: C.G. Edge sitting as a single member pursuant to s.14(1)
of the NEB Act.

APPEARANCES:

N.J. Schultz)	National Energy Board
A. Davis)	
J.W.S. McQuat, Q.C.)	TransCanada PipeLines Limited
C.C. Black)	
P. Keck)	
C.K. Yates	Canadian Petroleum Association
J.P. Peacock, Q.C.	Independent Petroleum Association of Canada
P.C.P. Thompson, Q.C.	Industrial Gas Users Association
A.S. Hollingworth	Alberta Petroleum Marketing Commission
J.M. Johnson, Q.C.)	Minister of Energy for
Eleanor J. Smith)	Ontario
J. Giroux)	Procureur général du
J. Robitaille)	Québec

M.M. Peterson	C-I-L Inc.
J.H. Farrell	The Consumers' Gas Company Ltd.
W.M. Smith	Dome Petroleum Limited
L.J. Addy	Dow Chemical Canada Inc.
J. Lutes	Foothills Pipe Lines (Yukon) Ltd.
Y. Brisson	Gaz Inter-Cité Québec Inc.
R. Lassonde	Gaz Métropolitain, inc.
R.G. Smellie) P.O. Petursson)	Greater Winnipeg Gas Company
J.D. Ferguson	Inland Natural Gas Co. Ltd.
T.M. Hughes	KannGaz Producers Ltd.
J.H. Smellie) M.B. Sullivan) P.R. Telleen)	Natural Gas Pipeline Company of America
P.F. Scully) G. Laidlaw)	Northern and Central Gas Corporation
E.B. McDougall) D. Watkiss)	Northwest Alaskan Pipeline Company and Northwest Pipeline Company
J. Hopwood, Q.C.	NOVA, An Alberta Corporation
D.O. Sabey, Q.C.) L.E. Smith)	Ohio Interstate Pipeline Company
K.F. Keeler	Pan-Alberta Gas Ltd.
D.G. Hart, Q.C.	PanCanadian Petroleum and ProGas Limited
R. Beattie) D. Fonteyne)	Sulpetro Limited
H. Soloway, Q.C.) W.T. Houston)	Tennessee Gas Pipeline Company
H. Soloway, Q.C.) L. Leclerc) W.T. Houston)	Trans Québec & Maritimes Pipeline Inc.

J.F. Weiler

Texas Eastern Transmission
Corporation

T.G. Kane

Texas Gas Transmission
Corporation

P. Gilchrist

Union Gas Limited

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ABBREVIATIONS

Act	- National Energy Board Act
APMC	- Alberta Petroleum Marketing Commission
CPA	- Canadian Petroleum Association
CIL	- C-I-L Inc.
Consumers'	- The Consumers' Gas Company Ltd.
Dome	- Dome Petroleum Limited
Dow	- Dow Chemical Canada Inc.
ERA	- United States Economic Regulatory Administration
FERC	- United States Federal Energy Regulatory Commission
Foothills	- Foothills Pipe Lines (Yukon) Ltd.
GICQ	- Gaz Inter-Cité Québec Inc.
GMI	- Gaz Métropolitain, inc.
Greater Winnipeg	- Greater Winnipeg Gas Company
IGUA	- Industrial Gas Users Association
Inland	- Inland Natural Gas Co. Ltd.
IPAC	- Independent Petroleum Association of Canada
KannGaz	- KannGaz Producers Ltd.
Natural	- Natural Gas Pipeline Company of America
N & C	- Northern and Central Gas Corporation
NOVA	- NOVA, An Alberta Corporation
Northwest Alaskan	- Northwest Alaskan Pipeline Company

Northwest Pipeline	- Northwest Pipeline Company
Ohio	- Ohio Interstate Pipeline Company
Ontario	- Minister of Energy for Ontario
Pan-Alberta	- Pan-Alberta Gas Ltd.
PanCanadian	- PanCanadian Petroleum Limited
ProGas	- ProGas Limited
Québec	- Procureur général du Québec
Sulpetro	- Sulpetro Limited
TransCanada	- TransCanada PipeLines Limited
Tennessee	- Tennessee Gas Pipeline Company
TETCo	- Texas Eastern Transmission Corporation
Union	- Union Gas Limited

CHAPTER 1

Introduction

The background and purpose of this conference are fully set out in Order No. MH-1-84 which is attached as an Appendix to this Report.

CHAPTER 2

Timing, Relationship, and Structure of the Methodology and Facilities Hearings

2.1 Views of the Parties

There was a consensus that decisions with respect to the timing of the two hearings should not result in any undue delay in getting Canadian gas authorized for export to market. There was a consensus that the methodology and facilities hearings were inter-related in the sense that a consideration of certain methodological issues, such as cost allocation between domestic and export services, was desirable before a final decision is rendered on facilities. There was a consensus that ERA import authorizations should be in place before a final decision on facilities could be rendered. There was a consensus that the hearings could - and, if possible, should - be completed and decisions rendered by the Board by late 1985. Finally, there was a consensus that all competing facilities proposals should be considered in a consolidated omnibus proceeding. The debate among parties centered on the precise timing and sequence of events.

The outstanding issues can be summarized as follows:

1. Should the methodology hearing precede the facilities hearing?
2. Can the methodology hearing be split with costs allocated to export services, for example, being treated separately?
3. If the costs allocated to export services were treated separately, should this be refined further to deal only with the question of cost allocation in respect of new exports?
4. When should the methodology hearing start?
5. When should the facilities hearing start bearing in mind that ERA approvals should be in place before a final decision can be taken?

6. In what order should the issues in the facilities hearing be heard?
7. Should both hearings be disposed of by the same panel of the Board?

TransCanada's timetable for the methodology and facilities hearings was premised on TransCanada's objective of having facilities in service for partial deliveries to the United States northeast by late 1987 with full deliveries commencing in 1988. To achieve this objective, decisions by the Board on both the methodology hearing and the facilities hearing would be required by late 1985. As noted above, there was a consensus that the timing of the hearings should not result in a delay in getting Canadian gas authorized for export to market and that decisions by the Board should be rendered by late 1985.

TransCanada stated that it would file by early January 1985 a full and complete facilities application which would contain amended signed sales contracts and signed transportation agreements. TransCanada would, at the same time, file its amended sales contracts with the ERA for import authorization and would also apply for the necessary licence amendments from the Board. The licence amendments contemplated involve re-arrangements within the authorized total volumes. In TransCanada's view, the hearing of its facilities application would not start until ERA approvals were known, however, this would not prevent other aspects of the review process, such as the information request process, from taking place in the period after filing but before ERA approvals had been given. TransCanada, on the advice of its Washington, D.C. counsel, estimated that from two to three months would be required for ERA approvals. This led TransCanada to propose a hearing of its facilities application commencing in the Spring of 1985.

It is clear from TransCanada's submission that, should ERA approvals be given but not as applied for, a delay in the commencement of the Board's hearing of the facilities application might be necessary. This would occur if, as a consequence of the ERA decision, major amendments to TransCanada's application were required. It was also clear that such amendments might relate not only to economic feasibility matters but also to technical matters such as size of facilities.

With this timetable in mind, it was TransCanada's view that the methodology hearing should take place as planned. Many of the issues in the methodology hearing are of importance to the facilities hearing - as noted above there was a consensus on this. TransCanada submitted that these issues should be decided in advance of the facilities hearing commencing since this would allow the impact of the decision to be taken into account during the facilities hearing. In addition, a decision on the methodology hearing could assist in the resolution of export pricing questions in light of FERC Order 380 which may require the export price of Canadian gas to reflect distinct demand and commodity elements in the transportation component of the price.

TransCanada submitted that it was not practicable to sever export-related issues from the methodology hearing since virtually all the issues in the methodology hearing were intertwined. A decision on any issue has the potential to impact on almost any other issue and the inter-relationship of issues crosses and re-crosses the boundary between export and domestic services.

In TransCanada's view the methodology hearing should take place as scheduled or, at least, without significant delay. TransCanada would not consider a delay which did not exceed one month significant. TransCanada noted that the methodology

hearing had been called in March 1984 so that parties should be ready to proceed. TransCanada also submitted that any restructuring of the methodology hearing at this time could only lead to a delay.

There was substantial support for the proposition that the methodology hearing should take place and be decided before the facilities hearing commences. The proposition was supported by IPAC, IGUA, Ontario, CIL, Consumers', Dome, Dow, Foothills, Greater Winnipeg, Inland, KannGaz, Natural, N & C, NOVA, Ohio, Pan-Alberta, Tennessee, TETCo, Union, and Sulpetro.

IPAC, however, requested that the methodology hearing be delayed for 60 days until November 1984 - a period in excess of the one-month delay that TransCanada was prepared to accept. Sulpetro supported, and IGUA had no objection to, a delay up to 60 days. Others, such as KannGaz and Union, were opposed to any delay in the commencement of the methodology hearing.

Consumers' proposed a delay in the commencement of the methodology hearing from 25 September 1984 until 23 October 1984 with the filing dates for intervenor evidence and supplementary evidence moved from 24 August 1984 to 21 September 1984 and from 12 September 1984 to 10 October 1984 respectively. This would permit parties whose resources had been diverted by the need to prepare for this Conference and by recent developments in export pricing policy to properly prepare for the methodology hearing. The majority of those who favoured the methodology hearing preceeding the facilities hearing were either in favour of a short delay or would not oppose such a delay.

Union, while not favouring a delay, submitted that more time should be permitted, after the filing of intervenor evidence, for the preparation of supplementary evidence. Union suggested that the date should be extended to 20 September 1984.

Ohio, while broadly supportive of TransCanada's approach to timing, made it clear that its principal concern was with respect to cost allocation in relation to export services. CIL on the other hand, while also supportive of TransCanada's approach, made it clear that its principal concern was with respect to domestic services.

APMC did not favour an early start to the methodology hearing. Although APMC believed that the methodology hearing should precede the facilities hearing, APMC submitted that the methodology hearing should not commence until after ERA import authorizations had been given. In the view of APMC, there would be no point in examining toll methodology for facilities if the export price for gas does not support those facilities. APMC noted that their resources had been diverted to other matters and that they could not meet the 24 August 1984 filing deadline for intervenor evidence in the methodology hearing.

Most of the remainder of the parties with a view on the timing of the methodology hearing took the position that the methodology hearing should follow the facilities hearing with a single decision being rendered by the Board after both hearings. That is to say, the methodology hearing would become the last phase of the facilities hearing with no decision being rendered until all phases had been completed. This was the position of CPA, Québec, GICQ, GMi, PanCanadian, and ProGas. Northwest Alaskan and Northwest Pipeline favoured a delay in the methodology hearing and, in the case of Northwest Alaskan, submitted that it should take place after the facilities hearing. Northwest Alaskan appeared to contemplate a decision on the facilities hearing prior to the methodology hearing.

CPA submitted that a firmer base of federal government policy and federal/provincial agreement was desirable, having

regard to the need to implement the new Canadian gas export pricing policy, the expiry of the Federal/Alberta agreement on energy pricing and taxation, and the federal election, before the methodology hearing begins. CPA proposed a three-phase hearing commencing early in 1985. The first phase would deal with technical matters; the second with feasibility including alternative routes and a detailed consideration of markets; and the third phase with toll methodology. A single decision would be issued at the end of all phases. The hearing would be conducted by the same panel of Board members. CPA noted that having the same panel of Board members hear and decide all facilities and methodological issues would also give the Board greater procedural flexibility. CPA submitted that its proposal would not result in any delay in getting gas to market.

PanCanadian and ProGas advanced timing proposals which were substantially the same as CPA's.

Québec and GICQ endorsed the approach proposed by CPA and, in addition, Québec endorsed the position of PanCanadian.

In support of its view, Québec stressed that stability in pricing and tariff regimes was necessary if development of new Quebec markets was to continue. While prices and tolls might be theoretically distinct, in Québec's view, potential gas buyers could perceive a change in the toll regime as possibly affecting, in the short term, gas pricing. This would create instability which would affect the development of new gas markets in Québec. GICQ shared this concern and stressed that its market was being developed within the context of existing price and tariff regimes. GICQ also stressed the uncertainty with respect to federal government policy and the federal/provincial agreement referred to by CPA.

Québec also noted that, while principles applicable to any expansion of TransCanada's system could, in general, be adopted without regard to the specific nature of the expansion, the magnitude of TransCanada's presently proposed expansion was such that issues related to toll methodology should not be decided in the abstract but rather in light of the specific facilities to which the methodology will apply. This view was shared by Northwest Alaskan who submitted that the methodology hearing should not take place in a vacuum.

GMI submitted that it was only necessary to deal with issues related to export services at the present time and that the balance of the methodology hearing could be adjourned. GMI did not have any specific proposals with respect to how the issues in the methodology hearing could be divided to permit export-related issues to be heard separately.

Some parties had what might be regarded as second choice positions which involved some modification to their primary positions.

Québec and GICQ noted that it might be possible for export-related issues in the methodology hearing to proceed at present. NOVA was also of the same view. No specific proposals were made as to how this could be achieved. On the other hand, it was strongly argued by TransCanada and Consumers' that such a split was not practicable.

APMC was of the view that the technical aspects of the facilities hearing could precede the methodology hearing. As noted above APMC stated that the methodology hearing should not begin until ERA import authorizations have been given. On this approach, if the technical aspects of the facilities hearing

preceded the methodology hearing, it could also be before ERA approvals were known. On the approach to timing proposed by CPA, Québec, GICQ, PanCanadian and ProGas, the facilities hearing could begin before ERA approvals had been given. TransCanada, as well as Consumers', noted that ERA import approvals could have an impact even on technical aspects of the facilities hearing. The majority view was that ERA approvals should be known before the facilities hearing begins.

No party specifically argued that consideration of export-related toll methodology questions should be confined to a consideration of those questions as they apply to new exports only.

At the opening of the conference there was a considerable divergence of views with respect to the structuring of the facilities hearing. A number of parties, including Foothills, favoured a consideration of the comparative feasibility of the competing proposals early with detailed consideration to follow. NOVA suggested that a preliminary assessment or Early Hearing type of procedure might be appropriate. TransCanada stated emphatically that it was not seeking an Early Hearing of the type proposed by NOVA and that, while it wished its application to be heard early, it also wished it to be heard fully.

As the conference progressed a consensus on structuring the facilities hearing evolved. The proponents- TransCanada, Foothills, Natural, and Ohio - stated that they wished to have their proposals examined in a comprehensive fashion by means of a consolidated omnibus proceeding. This would involve TransCanada and Foothills filing applications with the Board under Part III of the Act. Foothills' application would contain alternative proposals which would be consistent with the proposals of TransCanada, Natural, and Ohio. As noted TransCanada intends to file its application in early January 1985. Foothills would file no later than that and possibly earlier. Natural and Ohio would, at about the time Foothills filed, provide the Board with

information to supplement Foothills' application. Natural and Ohio would also appear as intervenors in the hearing. This method of proceeding appeared to be generally acceptable to parties.

2.2 Observations and Recommendations

1. Should the methodology hearing precede the facilities hearing?

In considering this question much weight must be given to the fact that a substantial majority of parties - including all the proponents of new facilities - favoured a decision on the methodology hearing without significant delay. Cogent reasons would be required to adopt another course.

The principal alternative proposed - namely that the methodology hearing be disposed of as the last phase of the facilities hearing - reflects the clear recognition that a resolution of the methodology hearing is important to the decision on the facilities hearing. This is the nature of the inter-relationship between the two hearings and the consensus on this is referred to in section 2.1 above. That inter-relationship, however, would dictate that methodological issues be resolved prior to a consideration of the facilities hearing.

It was suggested that a decision on the methodology hearing should only be made in light of the specific facilities proposed. If that were so, a methodology hearing might be required for each new major facilities application. That, however, has not been

the Board's practice in the past. The methodology hearing instead contemplates the examination of principles which will be applicable to any major expansion of facilities.

Nor is it the intention in the methodology hearing to consider pricing policy or to create uncertainty with respect to the continuation of the existing domestic pricing regime.

Finally, a decision on new export facilities may be needed by late 1985 and, given the importance of a decision on the methodology hearing to the facilities hearing, the methodology hearing should precede the facilities hearing.

It is, therefore, recommended that the methodology hearing precede the facilities hearing.

2. Can the methodology hearing be split?

No specific proposal was advanced with respect to how a splitting of the methodology hearing could be achieved. However, much was said with respect to why a splitting of the hearing was not practicable. Moreover, to split the hearing at this stage would inevitably lead to unnecessary delay.

It is recommended that the methodology hearing proceed as presently structured.

3. If the methodology hearing were split, should this be confined to cost allocation in respect of new exports only?

In light of the recommendation in response to question 2 above, this question does not need to be answered.

4. When should the methodology hearing start?

The majority view - which includes all proponents of new facilities - is that the hearing should commence without significant delay. Most favour or do not oppose a short delay of not more than a month to permit parties to properly prepare.

Given the desirability of issuing a decision on the methodology hearing prior to the facilities hearing, a significant delay in the methodology hearing does not appear warranted.

It is recommended that the methodology hearing commence without delay apart, perhaps, from a one-month delay to permit parties to adequately prepare. A starting date of October 30, 1984 would likely avoid overlap with the already announced Board hearings for Westcoast Transmission Company Limited and the Northern Canada Power Commission scheduled for late November 1984.

5. When should the facilities hearing start?

The majority view favoured the commencement of the facilities hearing after ERA import approvals are issued. This is reasonable since ERA approvals can impact even on technical matters such as size of facilities.

It is suggested that the facilities hearing commence within a reasonable period following the issuance of ERA approvals. This does not, of course, preclude the filing of applications for facilities nor does it preclude the review process commencing by means, for example, of requests for additional information or the issuance of a public notice inviting interventions.

6. In what order should the issues in the facilities hearing be heard?

The approach suggested by the proponents - namely a comprehensive examination of competing proposals in a consolidated omnibus hearing beginning, preferably, with technical issues - is workable and appears acceptable to other parties.

It is recommended that the facilities applications filed by TransCanada and Foothills be consolidated into an omnibus hearing; that supplementary information from Ohio and Natural be encouraged; and that the competing proposals be examined in the usual comprehensive manner. The precise ordering of issues can be addressed by the Panel of the Board responsible for hearing those applications.

7. Should both hearings be disposed of by the same panel of the Board?

Given the inter-relationship of the two hearings, it would seem desirable for the purpose of continuity to have some common membership between the members of the two panels.

CHAPTER 3

KEY ISSUES IN THE METHODOLOGY HEARING

The Memorandum to Parties attached to Order No. MH-1-84, the Appendix to this Report, identifies certain issues in the methodology hearing in respect of which parties were required to comment. The purpose of this was to attempt to clarify the issues which would be of primary importance in the hearing.

Apart from the broad question of the allocation of costs between export and domestic services discussed in the previous Chapter, an interest in examining issues related to zones was expressed by Consumers' with CPA reserving their position on the issue. An interest in examining the present concept which treats TransCanada as a single integrated system for cost allocation purposes was expressed by IPAC, IGUA, Ontario, CIL, Dow, Northwest Alaskan, and Ohio with CPA, Consumers', Greater Winnipeg, Natural and NOVA reserving on the issue.

No parties questioned a cost-based approach to tolls although some parties such as CPA, IPAC and IGUA reserved their position. It was suggested, for example, by IPAC, that special circumstances might justify a deviation from a cost-based approach to tolls.

CHAPTER 4

THE NEED FOR COMPARABILITY OF INFORMATION
IN THE FACILITIES HEARING

4.1 Views of the Parties

Parties were asked to consider how comparable information on competing proposals to that of TransCanada can best be put before the Board. To facilitate discussion on this issue Board staff prepared a preliminary draft outline of the minimum information required for a comparison of competing proposals. This draft was filed as Exhibit A-3. An informal meeting between Board staff, with counsel, and parties was held on Wednesday afternoon 1 August 1984.

As a result of this process a consensus emerged that a standard information requirement using common assumptions for the purpose of comparison of competing proposals would be desirable. The information requirement should address the following issues:

1. cost of facilities and associated technical matters,
2. cost of transmission, and
3. costs/benefits from a Canadian public interest point of view.

It was assumed that the proponents would be at liberty to provide any relevant additional information. It was also assumed that this information requirement would not cover all the information required before a certificate could be issued but instead would be aimed only at key issues where comparability was necessary.

Many comments on specific items of information were offered at the informal meeting with staff. Some comments

were reserved, particularly with regard to costs/benefits. These are expected to be received shortly. It was understood that parties who required further clarification on outstanding issues might communicate orally through Board counsel. There was a consensus that a revised draft should be issued by the Board for written comments by parties before the information requirement is finalized.

Information with respect to markets was considered common to all proposals and would be examined during the facilities hearing as part of the normal review process.

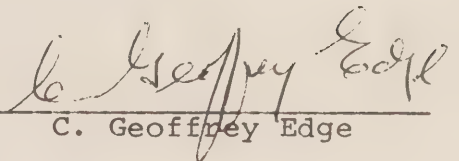
4.2 Observations and Recommendations

A standard information requirement which would result in the applicants, TransCanada and Foothills, and intervenors, such as Natural and Ohio, submitting comparable information on the three key areas referred to in section 4.1 above is desirable and is recommended. It is also recommended that, before such a requirement is finalized, the revised draft be issued for final written comments from parties.

CHAPTER 5

Disposition

The foregoing constitutes my Report to the Board
pursuant to subsection 14(1) of the Act.



C. Geoffrey Edge

NATIONAL ENERGY BOARD



OFFICE NATIONAL DE L'ÉNERGIE

ORDER NO. MH-1-84

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder;

AND IN THE MATTER OF the method of regulation under Part IV of the National Energy Board Act of the tolls of TransCanada PipeLines Limited (hereinafter called "TransCanada"). Board File No. 1562-T1-19; Board Order No. RH-2-84;

AND IN THE MATTER OF an application made by TransCanada PipeLines Limited for a Certificate of Public Convenience and Necessity under Part III of the said Act, filed with the Board under File No. 1555-T1-128;

B E F O R E the Board on Friday, 29 June 1984.

UPON the Board, by Order No. RH-2-84, having fixed 25 September 1984 for the commencement of a public hearing into the method of regulation of TransCanada's tolls;

AND UPON certain questions having arisen with respect to the timing, relationship, and structure of the said public hearing and the public hearing which the Board is required to conduct on TransCanada's application for a certificate for facilities to move new Canadian gas exports to market but for which latter hearing no date has yet been set;

IT IS ORDERED THAT:

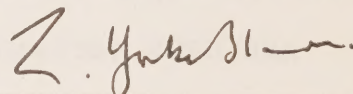
1. Pursuant to subsection 14(1) of the National Energy Board Act, a single member will conduct a conference to hear the views of interested parties to the two above-referenced hearings with respect to the matters identified in the memorandum to parties

- 2 -

attached hereto as Appendix A; and to report to the Board thereon together with such observations and recommendations as he may consider appropriate.

2. The conference will take place in the Delta Room, the Delta Ottawa Hotel, 361 Queen Street, Ottawa, Ontario commencing at 9:30 a.m. on Tuesday, 31 July 1984.
3. The conference will be conducted in accordance with the procedures set out in the memorandum to parties as modified or supplemented as circumstances may require.

NATIONAL ENERGY BOARD



G. Yorke Slader,
Secretary

MH-1-84

